PCCW

Annual Results

- for the year ended -

December 31, 2002

Hong Kong

March 20, 2003

Forward Looking Statements

The statements included in this presentation that are not historical in nature are “forward-looking statements” within the meaning of Section 27A of the U.S. Securities Act of 1933 and Section 21E of the U.S. Securities Exchange Act of 1934. These forward-looking statements, which may include statements regarding PCCW’s future results of operations, financial condition or business prospects, are subject to significant risks and uncertainties and are based on PCCW’s current expectations.

Actual results may differ materially from those expressed or implied in these forward-looking statements as a result of a variety of factors. These factors are discussed in PCCW’s reports furnished to or filed with the U.S. Securities and Exchange Commission, including, but not limited to, PCCW’s most recent Annual Report on Form 20-F.

Agenda

- **Overview** — *Richard Li*
- **2002 Financial Review** — *Alex Arena*
- **Operating & Strategic Review** — *Mike Butcher*, *Robert Lee*
- **Concluding Remarks** — *Mike Butcher*

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Delivering on Promises

Overview

Richard Li

Chairman & Chief Executive

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In 2002 We Delivered on Our Promises

2002 Objectives

Objective	Result
Debt Repayment Progress on Track	• Further balance sheet strengthening
Continue to Improve Free Cash Flow	• Increased operating profitability & cash flow
Organic Growth Opportunities to Improve Top Line	• Strong growth in targeted areas of broadband & BeS

In 2002 We Delivered Stronger Operating Results

(US$ million)	**2002**	**change**
Revenue	2,578	-8%
EBITDA	1,041	+10%
EBITDA Margin	*40%*	*vs. 34% (2001)*
Net Debt	4,220	-16%
Loss for the year attributable to shareholders	(995)	-

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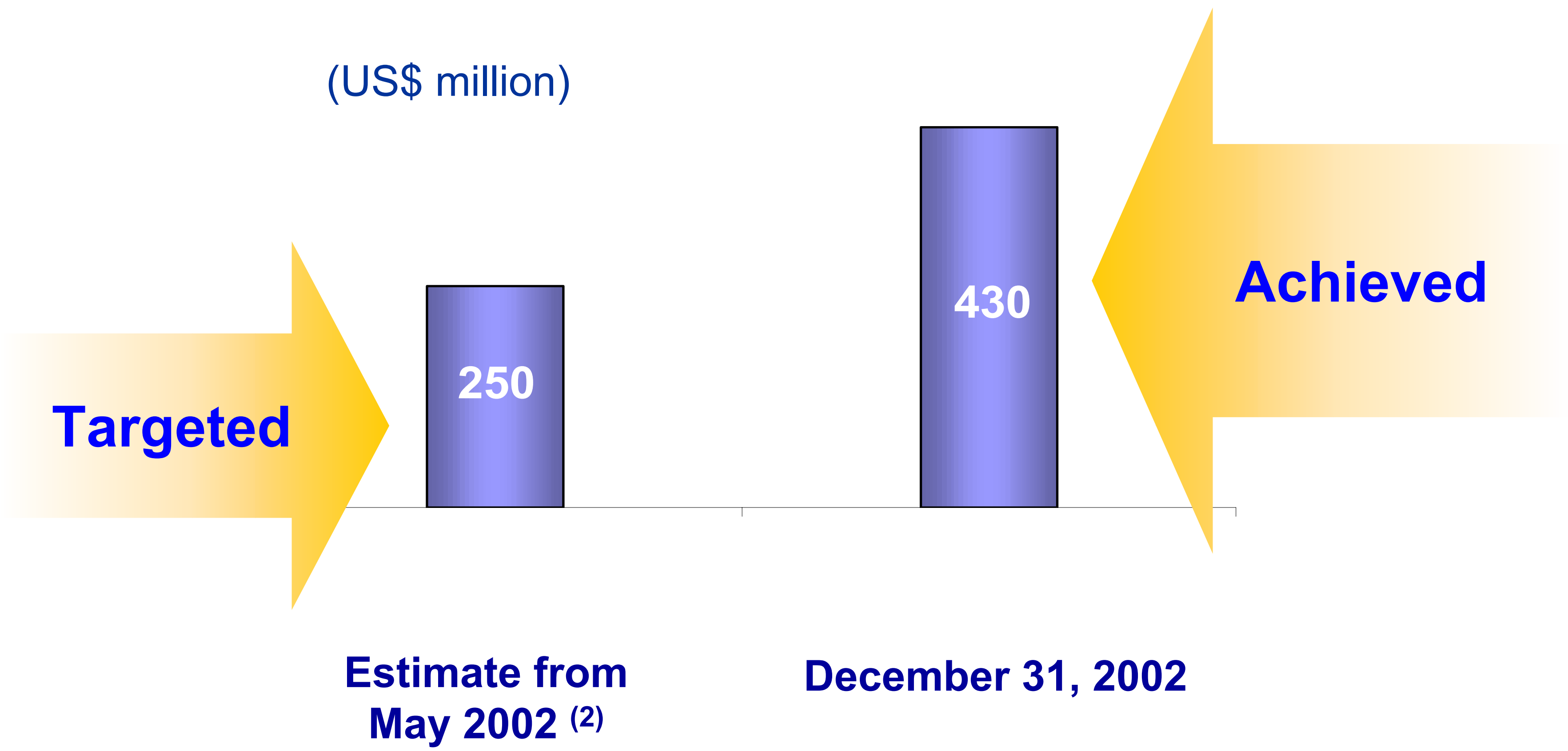
And Beat Expectations for Core Free Cash Flow [1]



(1) After capital expenditure but before US$ 283m investment on Cyberport

(2) CLSA Investors Forum, May 25, 2002

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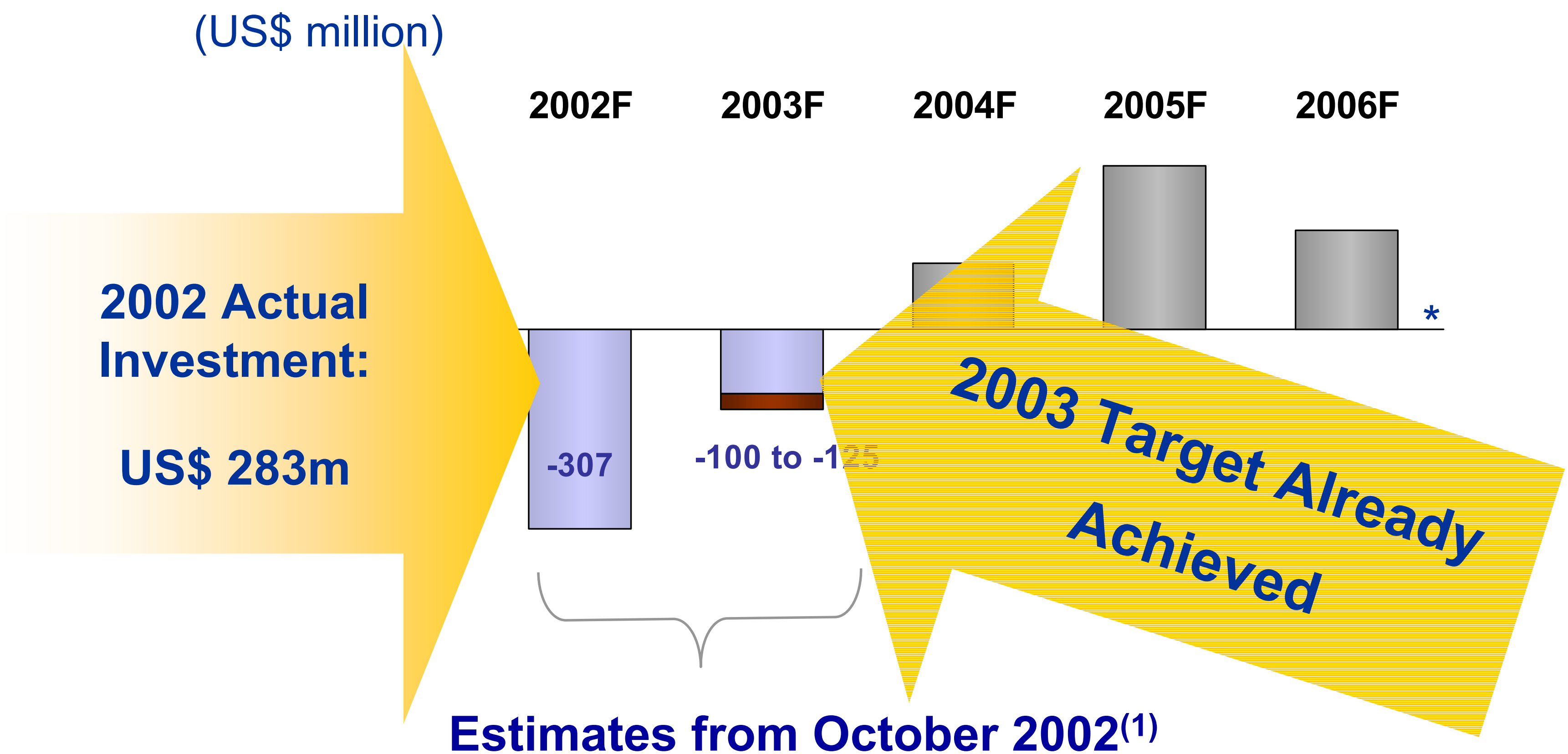
And We Have Invested Less in Cyberport than Expected

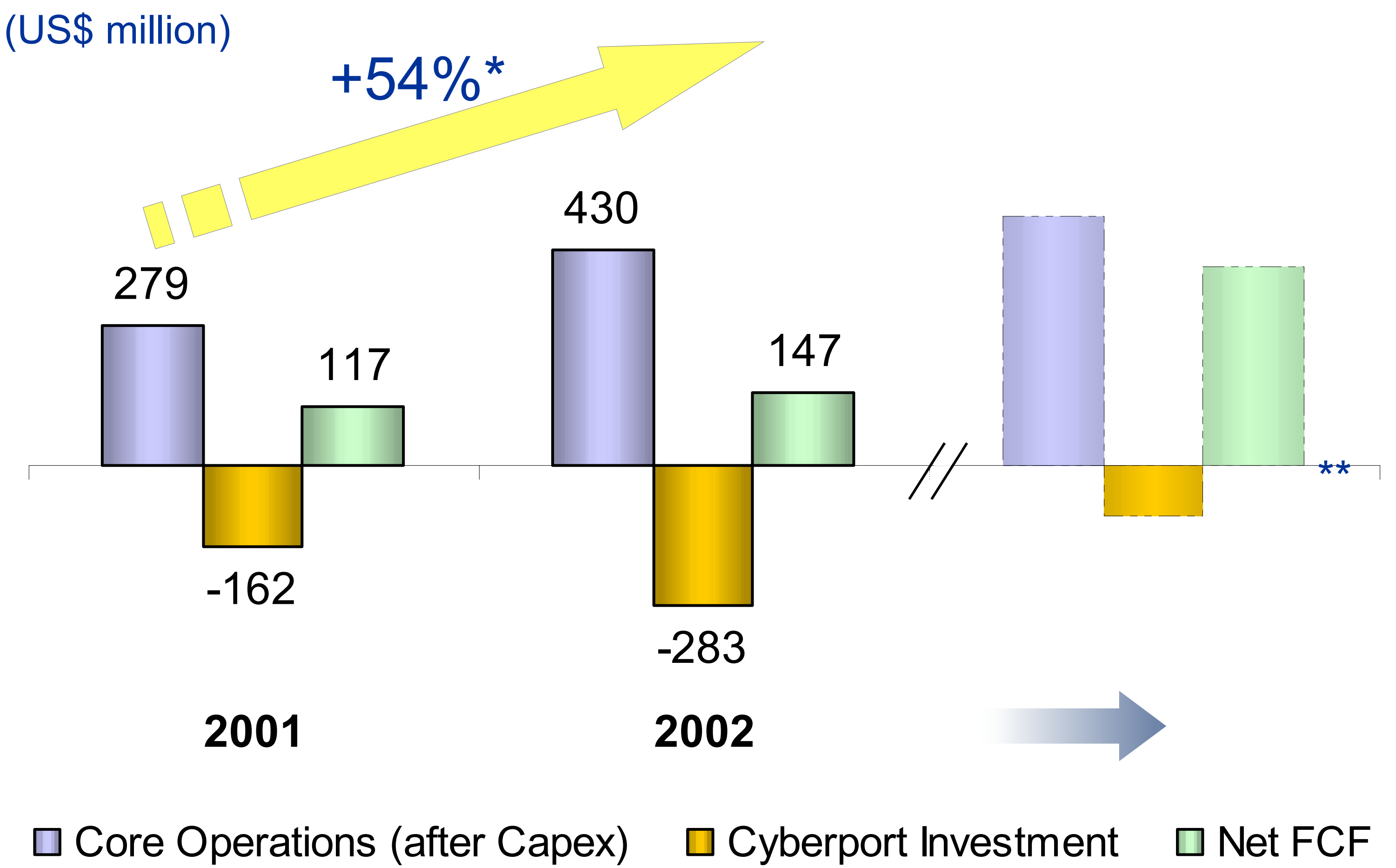


* For illustrative purposes only

(1) Morgan Stanley Roundtable, October 11, 2002

On track to See Our Investment Returned from 2004 Onwards

Group Free Cash Flow Acceleration



* Core free cash flow ** For illustrative purposes only

Managing for the New Market Realities

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Dividend Policy

- **Company's target is to pay a dividend in the medium-term**
- **However, we first want to make significant progress towards our previously announced goals:**
  - At least US$ 1bn in debt reduction from FY 2002 to FY 2005
  - "A" target ratings for HKTC

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In 2003 We Intend to Continue Delivering on Promises

Objectives

Debt Repayment Progress on Track

- Continuing debt reduction and improving credit ratios

Continue to Improve Free Cash Flow

- Further execute cost improvement strategies
- Cyberport sales ahead of target

Focus on Growth Opportunities to Improve Top Line

- New products and services for our customers
- Consider further investments only within financial priorities and strict criteria

Our Goal: Creating Value for Our Investors

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2002 Financial Review

Alex Arena

Executive Director

&

Group Chief Financial Officer

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Strategic Realignment Drives Strong Operating Results and Cash Flow

(US$ million)

		2001	2002	
Operating Profit	**Turnover**	**2,815**	**2,578**	**-8%**
	Recurring Revenue	2,697	2,568	-5%
	EBITDA	**948**	**1,041**	**+10%**
	EBITDA Margin	*34%*	*40%*	-
	Operating Profit*	**612**	**668**	**+9%**
Cash Flow	**Finance Costs**	**(392)**	**(256)**	**-35%**
	Capital Expenditure	**(310)**	**(207)**	**-33%**
	Cash Flow			
	Core Business	**279**	**430**	**+54%**
	After Cyberport Investment	**117**	**147**	**+25%**

* Operating profit before net gains on investments, provision for impairment losses & restructuring costs

Tough Business Decisions Result in One Time Items

(US$ million)	2001	2002
Operating Profit	612	668
Gains on Investments, Provision for Impairment Losses & Restructuring costs	87	(107)
Share of Results of: Jointly Controlled Companies, Associates and Unconsolidated Subsidiaries	107	107
Impairment Losses for Reach Goodwill	-	(1,059)
Accounting Loss on Disposals of Associates ("RWC") & Net Gain from M1	-	(184)
Profit/ (Loss) for the year attributable to shareholders*	172	(995)
Net profit before one time items*	172	288

* 2001 profit for the year attributable to shareholders has been restated to US$172 m as a result of the retrospective restatement of prior year's taxation balance to take into account of the change in the accounting practice on income taxes, SSAP 12, as set out by the Hong Kong Society of Accountants adopted by the Group with effect from January 1, 2002

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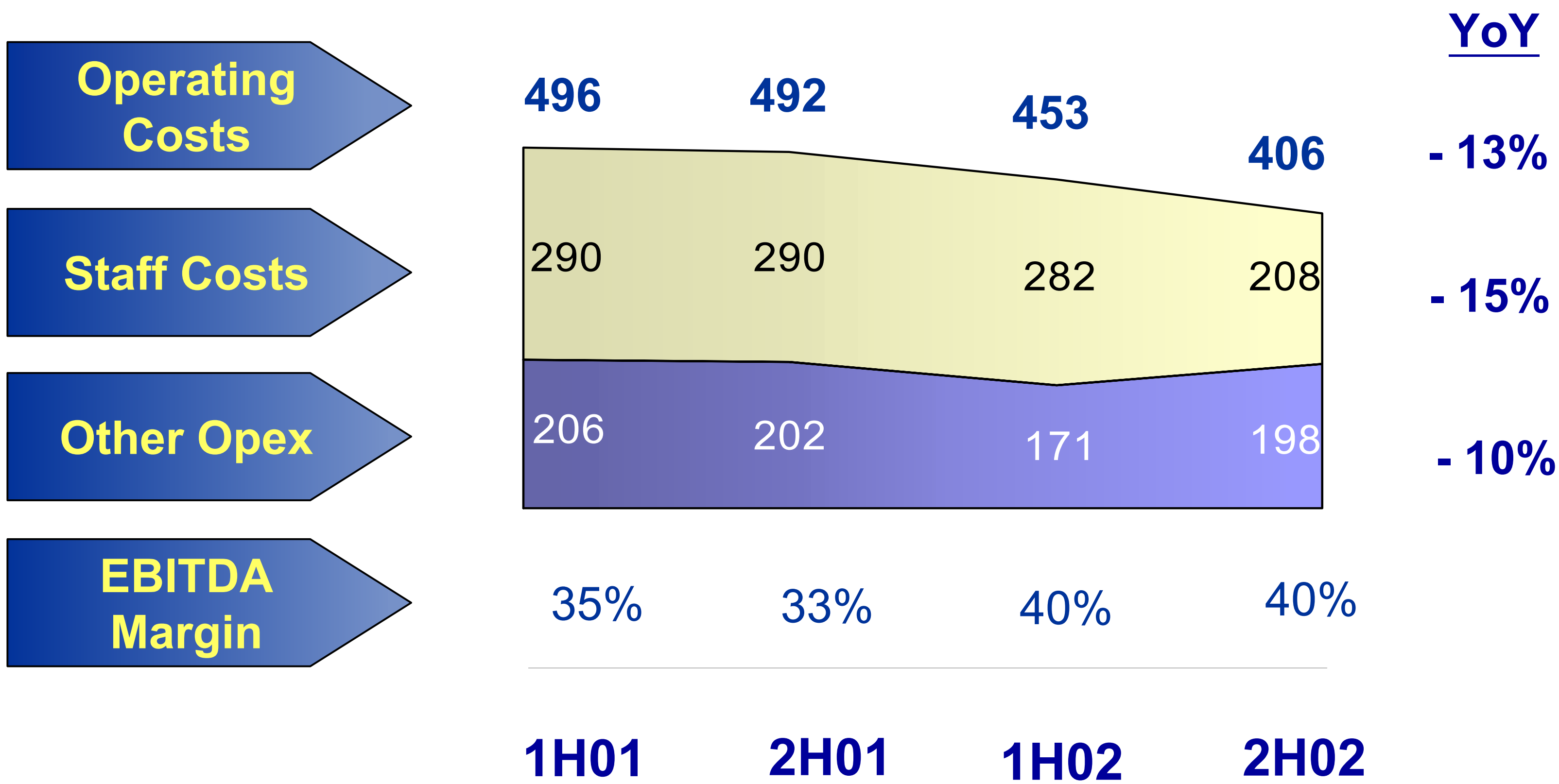
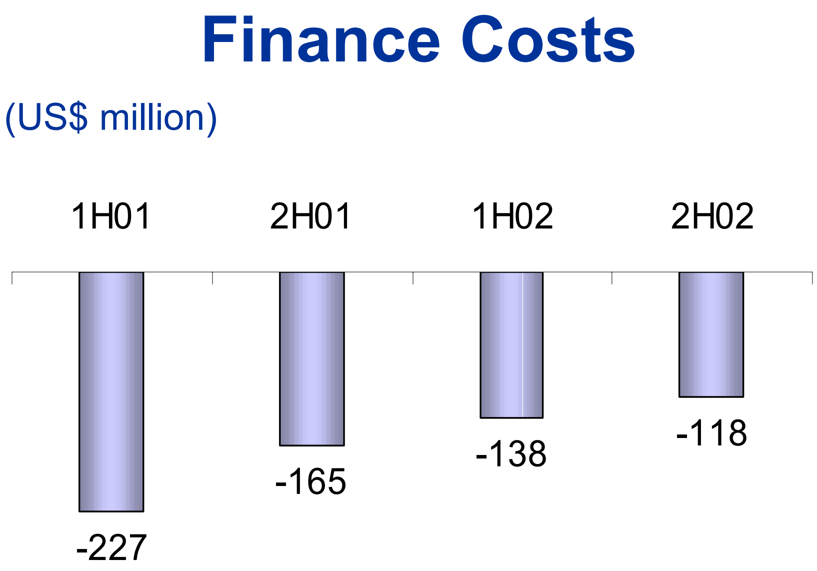
Our Effective Control of Operating Costs is Evident

(US$ million)



Finance Costs Have Also Fallen



- Interest paid down despite substantial lengthening of maturities
- Average cost of debt[1] 5.0% vs. 6.6% in 2001

(1)Average cost of debt including finance fees

De-leveraging Strategy Clearly Working

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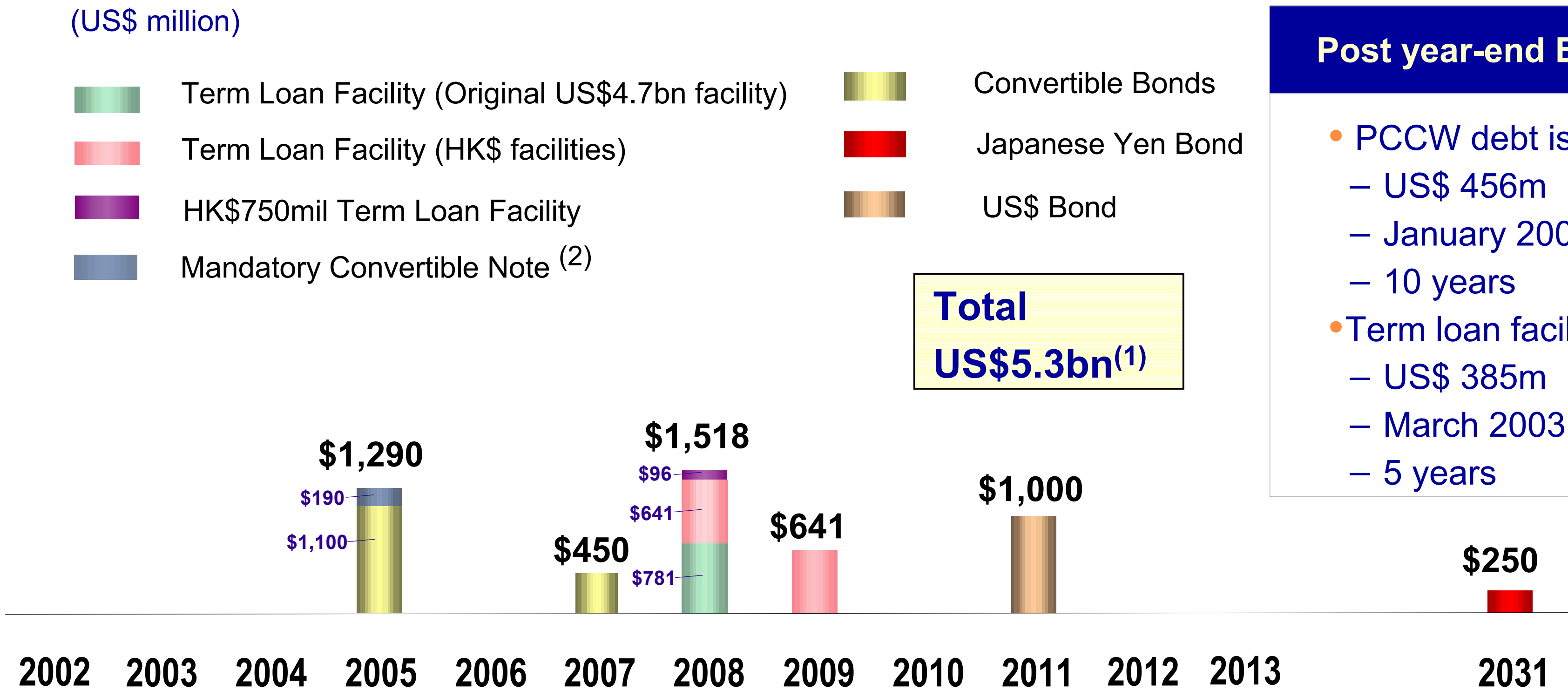
Improvements to the Balance Sheet
- Debt Maturity Extended

December 31, 2002



Post year-end Events

- PCCW debt issue:
  - US$ 456m
  - January 2003
  - 10 years
- Term loan facility
  - US$ 385m
  - March 2003
  - 5 years

(1) Total debt balance includes Beijing property RMB loan due from 2003-2008
(2) The US$190m convertible note issued to Telstra is treated as debt for conservatism. However, the Note is structured as a mandatory convertible for conversion into PCCW's ordinary shares upon maturity in June 2005. PCCW also has the option to redeem the convertible note in cash any time prior to maturity.

Average Cost of Funds Has Fallen to 5.0% Despite Lengthened Maturities

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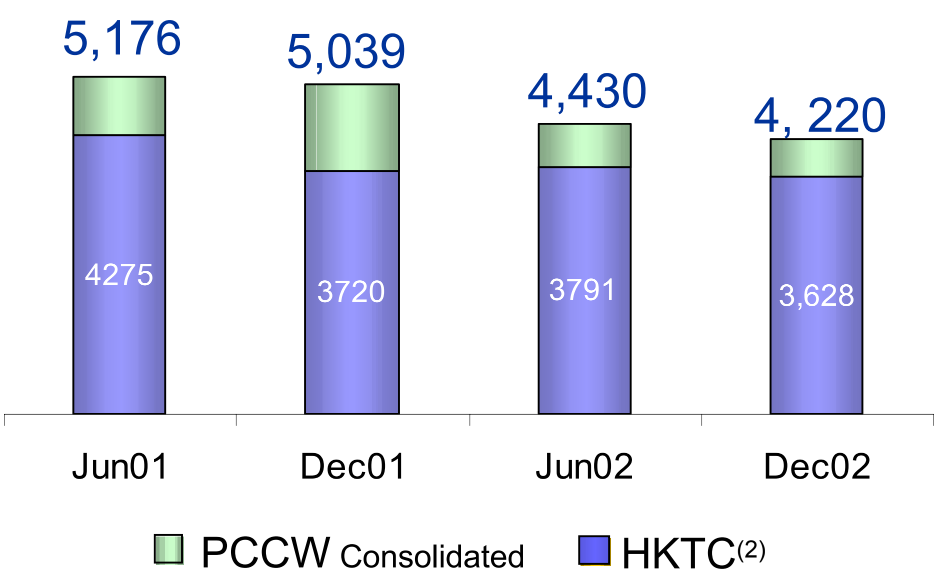
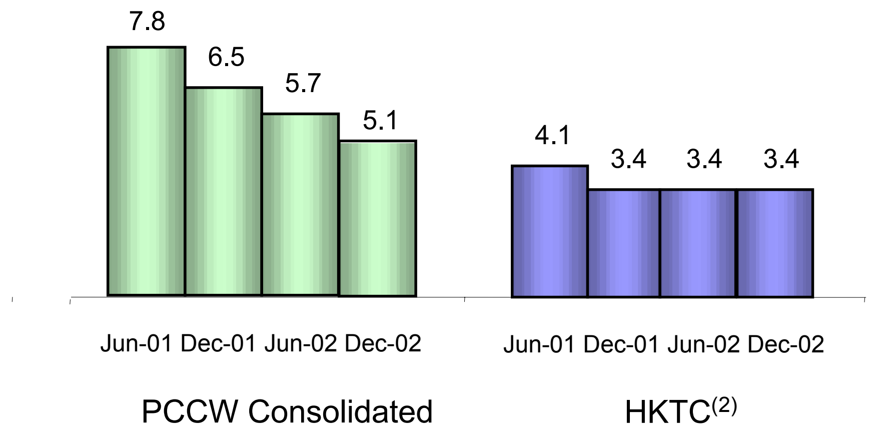
Improving Credit Fundamentals

(US$ million)

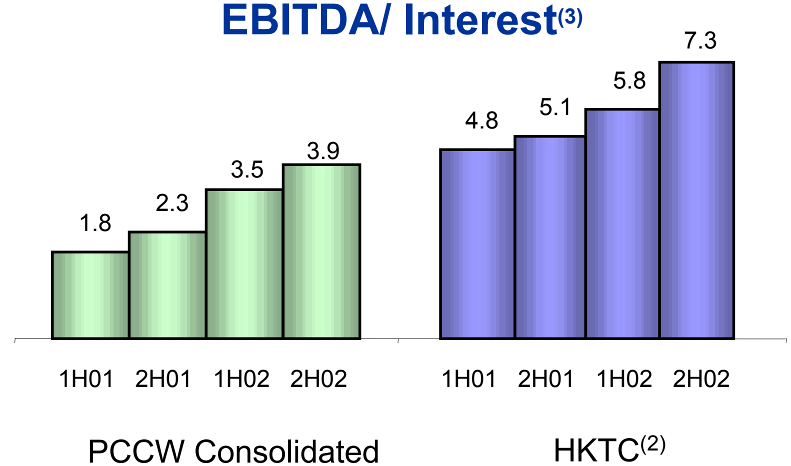
Net Debt



Debt/ EBITDA(1)



EBITDA/ Interest(3)



(1) Debt/EBITDA is calculated based on the gross debt as at period end divided by the EBITDA for the last 12-month period
(2) Retail Internet access was transferred into HKTC effective April 1, 2002
(3) Based on 6-month period EBITDA divided by gross interest plus finance fees

Operating & Strategic Review

Mike Butcher

Executive Director

&

Chief Operating Officer

Update Regarding Reach

Reach Goodwill Reduction

- US$ 1,059m goodwill impairment
- No impact on cash revenue, profit from operations, EBITDA and cash flow
- Does not lead to any non-compliance with debt covenants
- Negative impact on reported earnings
- No impact on shareholders' deficit

Update

- Sector clearly still experiencing significant competitive pressures due to significant historical over construction of network
- Reach remains industry leader in Asian wholesale long distance & undersea cable sector
- Reach remains a strategic asset for PCCW
- Both shareholders & banks involved in constructive dialogue
- We will provide further information as the situation develops

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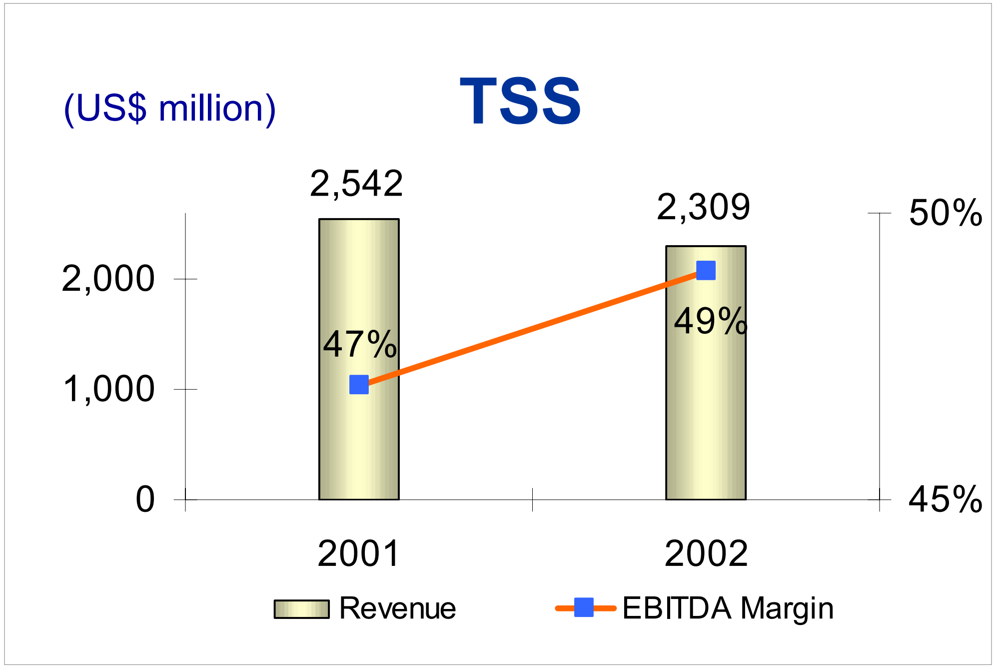
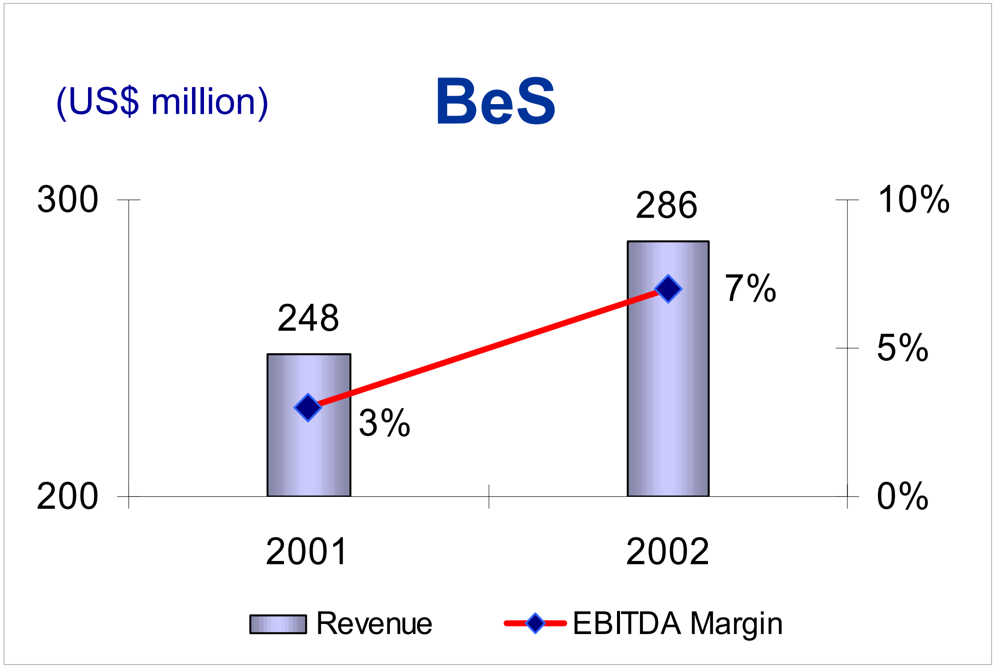
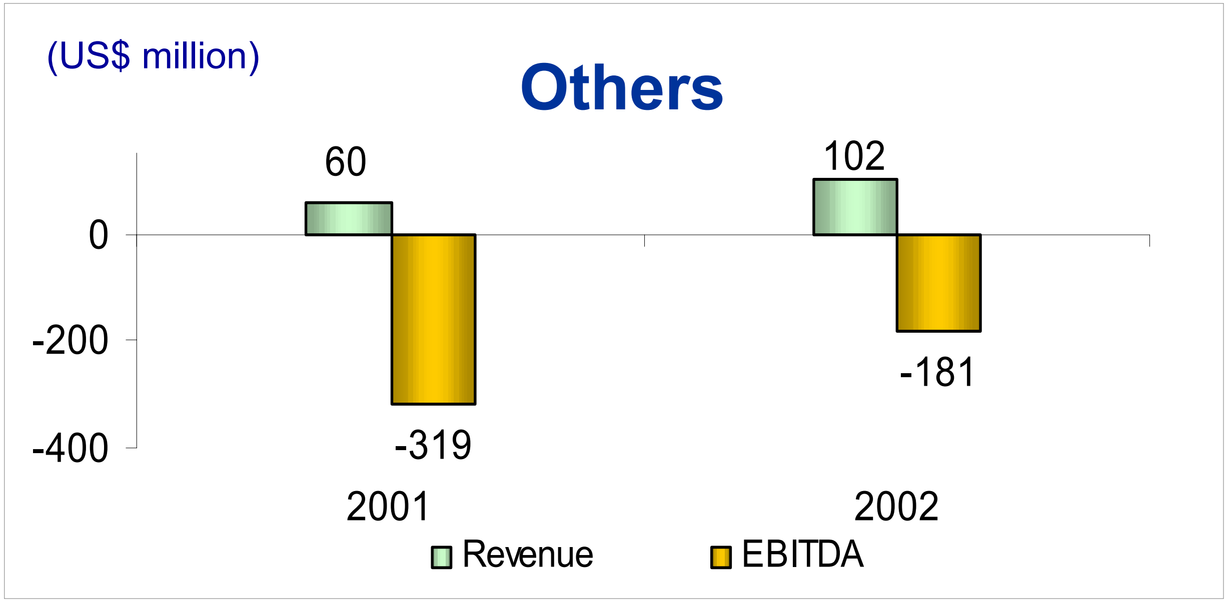
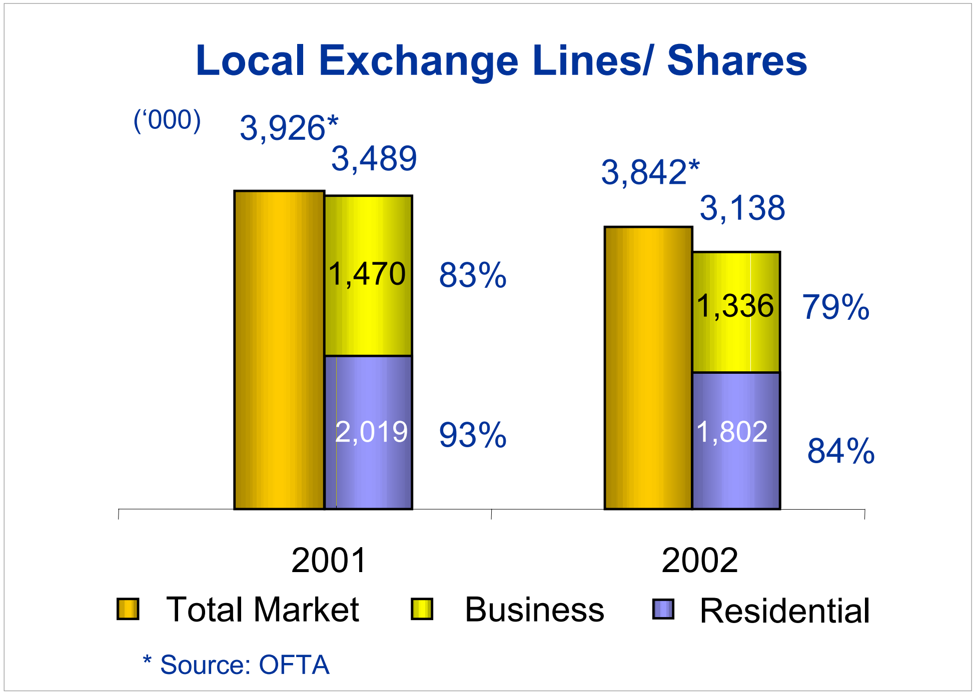
EBITDA Margins Improved in Core Business Units

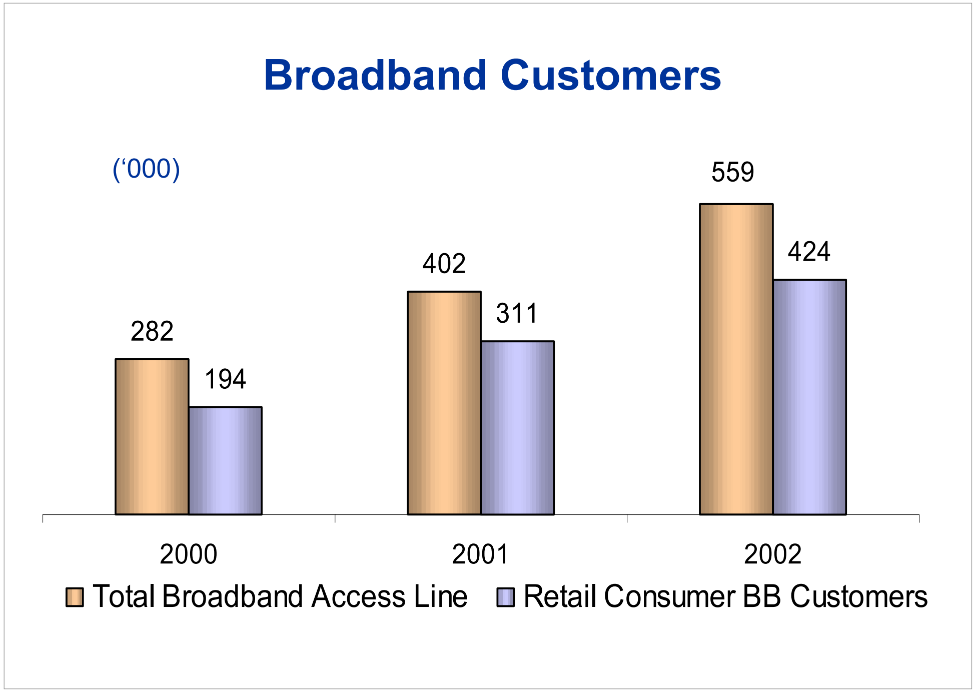


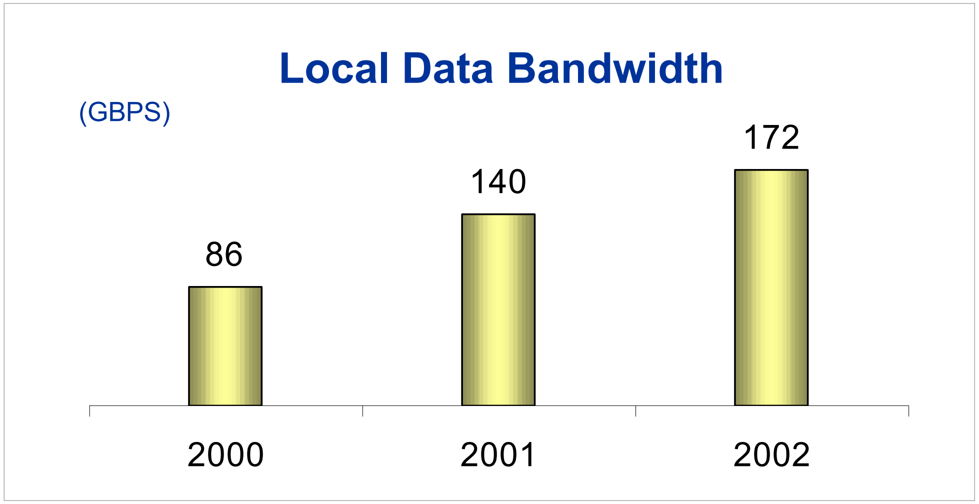




Hong Kong Telephony Remains Competitive While Data and Broadband Growing Strongly







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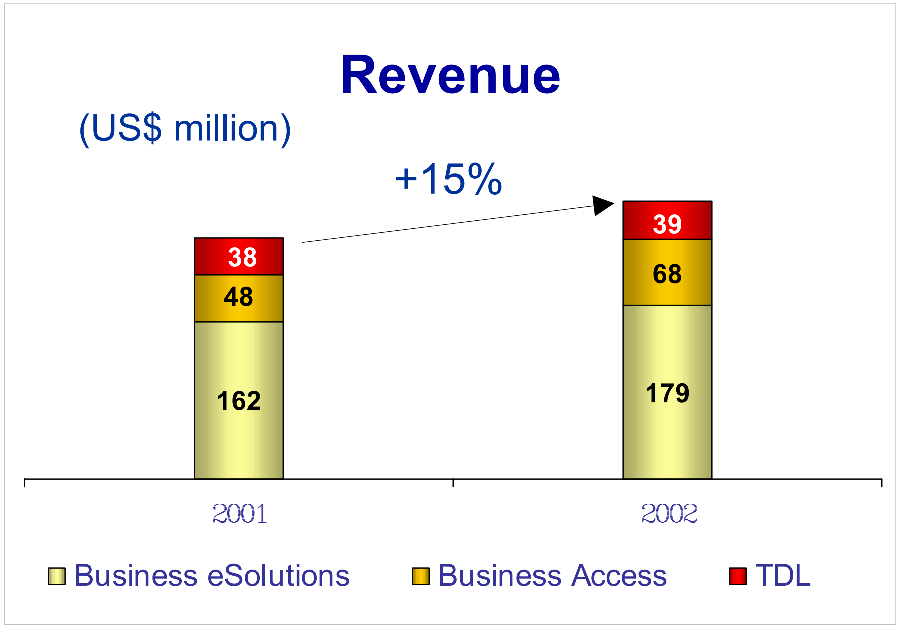
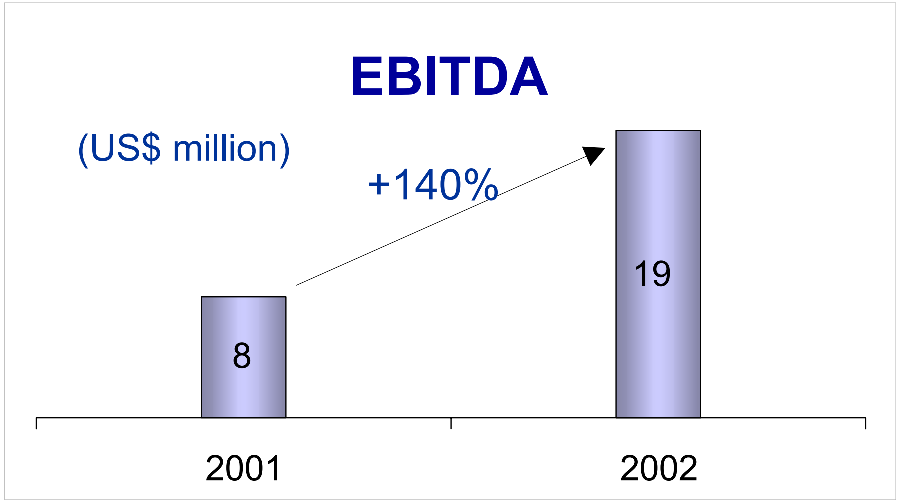
Business eSolutions - Delivering Growth





- Won many critical contracts
  - HKSAR Government
  - Major PRC telecom operator
- Demonstrated technology strength & project management excellence
- 74% revenue from external
- Signed two major JV agreements

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2002: Managing for the New Market Realities

Sub-contracting

- Established 17 independent sub-contracting companies
- 1,600 employees
- Volume driven contracting terms

Q2 : 2002

Cascade

- New 100% owned subsidiary
- 3,000 employees
- Revised salary & benefit terms
- External revenue targets set
- Outward facing marketing organization

November 2002

Operational Improvements

- Restructuring program
- Staff levels reset for maximum efficiency

Through 2002

Reduce Ventures & other Investments

- Restructured business portfolio
- Reduce investment in Ventures
  - EBITDA losses reduced 70%
- Substantial reductions in corporate overhead

Through 2002

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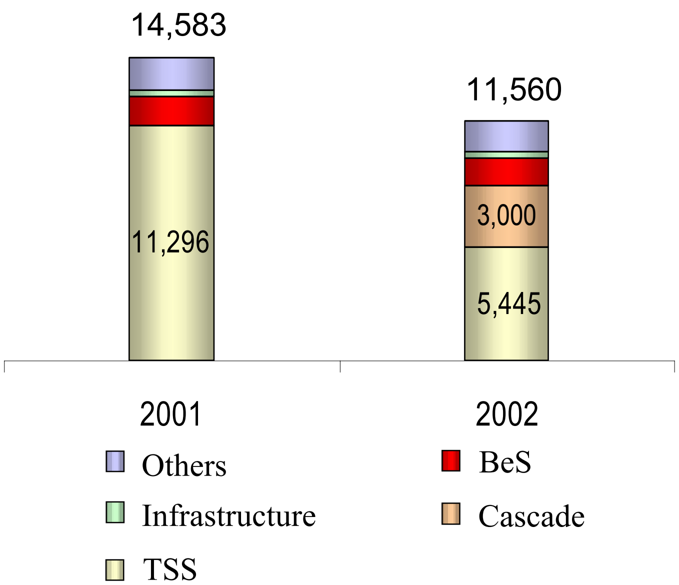
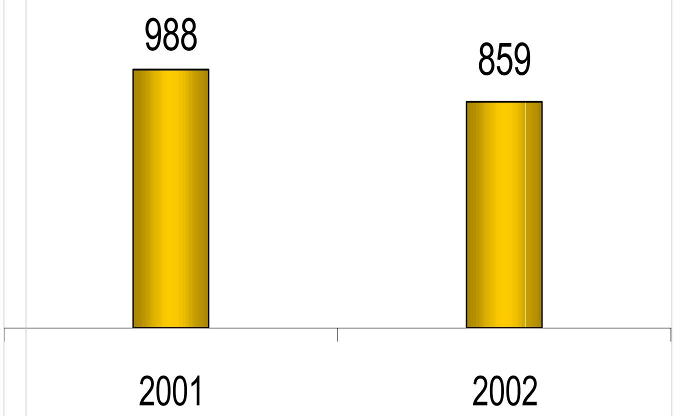
PCCW Has Aggressively Managed for Cost Savings

Headcount



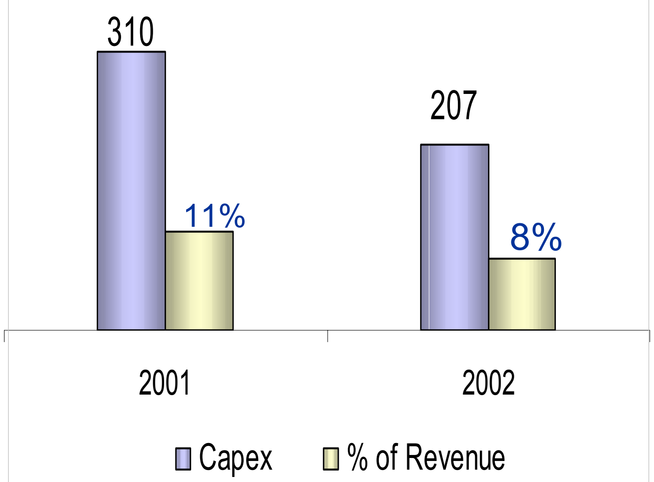
Operating Costs

(US$ million)



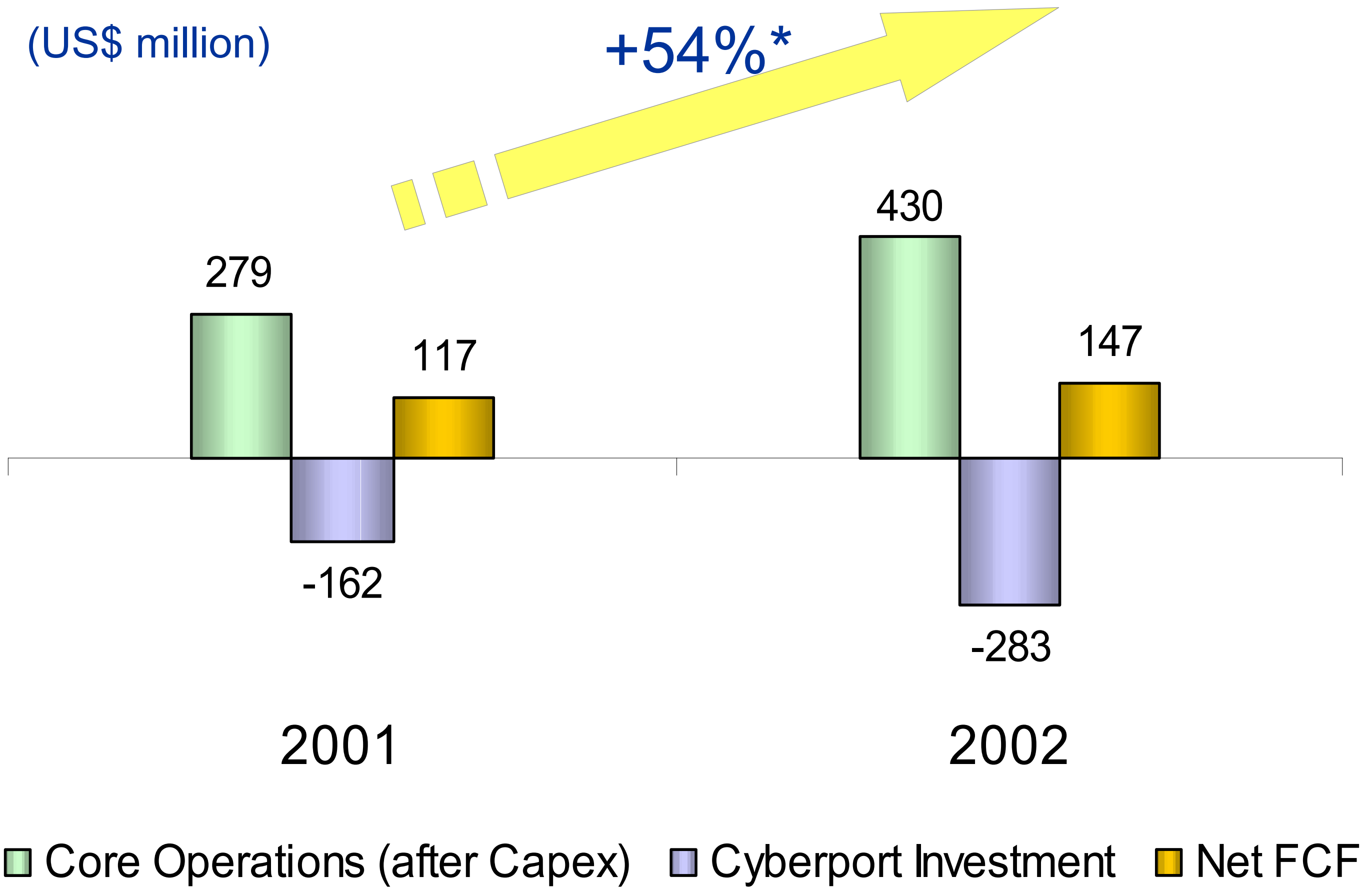
Capital Expenditure/ Revenue

(US$ million)



Managing for the New Market Realities

Group Free Cash Flow Acceleration



*Core free cash flow

Managing for the New Market Realities

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Strategy to Maintain Core Cash Flow

Services Differentiation	• Sell services on value & services differentiation and not price
Brand Building	• Continue to build brand with focus on quality and technology innovation
Minimizing Churn	• Focus on building customer loyalty to minimize churn
Maximizing Profit	• Maximize profitability with segmentation approach for pricing differential
Innovation	• Introduce new innovative products & services

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TSS Planned Product Innovation

During 2003 we will introduce many new products & services

Intelligent Networking

- Intelligent networking options
  - Smartphone/ Personal assistant
  - Convergent platforms

Wireless Broadband

- Wireless broadband & extensions of our Wi-Fi operations

VAS

- Significant enhancements to our value added services on our Netvigator product

2003 - Operating Strategy

Defend, Innovate & Grow

Defend:
- Market share
- Premium pricing
- Value differentiation
- Brand

Innovate:
- Intelligent networks
- Value added services
- Convergent platforms
- Wireless broadband

Grow:
- New product & services
- Business eSolutions
- China
- Investment

Focus on Growing Revenue & EBITDA for 2003

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Infrastructure & Cyberport

Robert Lee

Executive Director

&

Chairman of PCCW Infrastructure

Cyberport Residential - Residence Bel-Air

Residence Bel-Air
ISLAND SOUTH
貝沙灣

Financial Recap

- **Investment through YE 2002:**
  - > US$ 499m
- **Projected 2003 investment*:**
  - > US$ 100m to US$ 125m

*based on 450 units sales in 2Q & 3Q ‘03

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Cyberport Residential - Residence Bel-Air Sales

Sales Launched
- February 15, 2003

Sales Achieved
- 350 units as of March 20, 2003
- Met target 5 months ahead of schedule

Pricing
- Above breakeven point

Sales Proceeds
- US$ 315m

Payment Terms
- Over 80% immediate payment

2003 PCCW Investment in Cyberport
- 1Q sales have capped PCCW investment at US$ 100m to $ 125m for 2003 - <u>even if no further sales are made in 2003</u>
- Additional sales will further reduce PCCW's Investment in 2003

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Future Outlook

- Limited supply of luxury flats on HK Island (2%)
- High liquidity (> US$ 410bn in savings deposit)
- Idle money looking for good investment
- Niche product attracts investors & end-users
  - Seaview
  - Close to CBD (15 mins)
  - 1.7 m sq. ft. of landscaped area
  - Good school network
  - 120,000 sq. ft. club house
  - Unique lifestyle services
  - Investment value (1.3 m sq. ft. of grade A office)
- Second phase to be launched in 3Q 2003

Cyberport Residential - Residence Bel-Air

Cyberport Residential - Residence Bel-Air

Cyberport Residential - Residence Bel-Air

Cyberport Residential - Residence Bel-Air

Cyberport Residential - Residence Bel-Air

Cyberport Residential - Residence Bel-Air

Concluding Remarks

Mike Butcher

Executive Director

&

Chief Operating Officer

2002 Financial Achievements

Recurring sales	Down	**5%**	to US$ 2,568m
EBITDA	Up	**10%**	to US$ 1,041m
EBITDA margin	Up	**40%**	vs. 34% (2001)
Operating profit*	Up	**9%**	to US$ 668m
Operating cash flow (before Cyberport investment)	Up	**54%**	to US$ 430m
Net debt	Down	**16%**	to US$ 4,220m

* Operating profit before net gains on investments, provision for impairment losses & restructuring costs

Executed on Financial Promises

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In 2003 We Intend to Continue Delivering on Promises

Objectives

Objective	
Debt Repayment Progress on Track	• Continuing debt reduction and improving credit ratios
Continue to Improve Free Cash Flow	• Further execute cost improvement strategies • Cyberport sales ahead of target
Focus on Growth Opportunities to Improve Top Line	• New products and services for our customers • Consider further investments only within financial priorities and <u>strict criteria</u>

Our Goal: Creating Value for Our Investors

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Strict Acquisition Criteria

- **Leverage our customer base & areas of core IT&T competency**
- **Deliver**
  - *Revenue & earnings accretive over the medium-term*
  - *Strategic benefit to existing operations*
- **Allow us to maintain our existing financial priorities**
  - *Repay **at least** US$ 1bn from FY 2002 to FY 2005*
  - *Target "A" ratings at HKTC*
- **Require modest permanent capital amounts relative to our cash flow profile**
- **Adopt appropriate financial structures to contain and share risk**

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Outlook

Operations

- Challenging economy and competitive environment continuing
- New products & services to provide new revenue streams
- Proactive management of regulatory process
- Revenue from existing business expected to be stable, Cyberport will add to top line

Costs

- Cost decline to continue resulting from cost initiatives of 2002
- Revenue mix changes could begin to impact cost profile

Cash flow

- Core business producing strong free cash flow
- Cyberport ahead of expectations
- Group free cash flow accelerating

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Q & A

Appendix

Metrics

TSS Revenue [1]

(US$ million)	2001	2002
Local Telephony Services (Direct Exchange Lines, interconnection, local access link and exchange co-location)	965	879
Local Data Services (Wholesale and retail Consumer Internet access, traditional IP/data products)	547	571
International[2] (IDD, retail IPLC, int'l data & messaging, LAC/MDF)	573	456
Other Services (Equipment sales, TeleServices, sub-contracting services)	457	403
Total	**2,542**	**2,309**
EBITDA	**1,186**	**1,142**
EBITDA Margin	**47%**	**49%**

TSS Operating Drivers

	2001	2002
Exchange lines in service ('000)	3,489	3,138
Business lines	1,470	1,336
Residential lines	2,019	1,802
Local Market Share	89%	82%
Business Lines (incl. IDA)	83%	79%
Residential Lines	93%	84%
Traditional Data (Exit Gbps)	140	172
Retail IDD minutes ('M mins)	1,085	1,041
IPLC Bandwidth (Exit Mbps)[2]	1,059	855
Total broadband access lines ('000) (Retail Consumer, Business and wholesale customers)	402	559
Retail Consumer Broadband Subscribers(‘000)	311	424
Consumer Narrowband Subscribers (‘000)	320	225

(1) Retail Consumer Internet access and multimedia services businesses were transferred into TSS effective Jan 2002. 2001 figures have been reclassified to reflect such restructuring.
(2) In connection with the formation of Reach in February 2001, Reach assumed responsibility for certain wholesale international telecommunications services and the associated turnover.

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Metrics

Business eSolutions (incl. IDC)

	2001	2002
Retail business broadband ('000)	36.4	51.8
(US$ million)		
Revenue		
SI & eSolutions[(1)]	162	179
Business broadband	48	68
TDL	38	39
Total Revenue	248	286
EBITDA	8	19

(1) Includes IDC

Infrastructure

(US$ million)	2001	2002
Revenue		
Recurring	57	77
Non Recurring	118	11
Total Revenue	175	88
EBITDA	73	61

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Metrics

Reach

(US$ million)	2001*		2002	
	USGAAP	HKGAAP	USGAAP	HKGAAP
Revenue	**1,279**	**1,279**	**1,263**	**1,263**
EBITDA	**398**	**398**	**423**	**423**
EBITDA Margin		*31%*		*33%*
PCCW's 50% share of PBT	**NA**	**91**	**NA**	**95**

* 11 months from Feb 1 to Dec 31, 2001

Headcount

	2001	2002
TSS	**11,296**	**8,445**
Business eSolutions	**1,392**	**1,280**
Infrastructure	**307**	**361**
Others(1)	**1,588**	**1,474**
Total (including part-time/ temp)	**14,583**	**11,560**
Total (excluding part-time/ temp)	**14,080**	**10,978**

(1) Ventures, Corp Functions, PCCW Japan, Internet Services and Others

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